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FISCAL IMPACT STATEMENT

LS 7527

BILL NUMBER: HB 1669

NOTE PREPARED: May 1, 2009

BILL AMENDED: Apr 29, 2009

SUBJECT: Geothermal Conversion Loans.

FIRST AUTHOR: Rep. Michael

FIRST SPONSOR: Sen. Gard

BILL STATUS: Enrolled

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Geothermal Conversion Revolving Fund:* This bill establishes the Geothermal Conversion Revolving Fund for the purpose of making loans to school corporations that: (1) install a geothermal heating and cooling system in a new facility; or (2) install a geothermal heating and cooling system that replaces a conventional heating and cooling system. It provides that the revolving fund is administered by the Indiana Bond Bank. It requires the Bond Bank to establish a written procedure for providing loans from the revolving fund to school corporations.

The bill specifies that a loan from the revolving fund may not exceed the difference between: (1) the cost of installing a geothermal heating and cooling system; and (2) the cost of installing a conventional heating and cooling system. It requires a school corporation to enter into a loan agreement with the Bond Bank before receiving a loan from the revolving fund. It requires the Bond Bank to report annually to the Budget Committee concerning the projects funded with loans from the revolving fund.

Energy Savings Contracts:

a. *Guaranteed Energy Cost Saving Contracts:* The bill provides that the maximum term of a guaranteed energy cost savings contract or utility efficiency program is 20 years. (Current law provides for maximum terms of 10 and 15 years.)

b. *Design-Build Contracts:* The bill amends the statute governing local public works projects to state that a political subdivision or its agencies may: (1) participate in a utility efficiency program or may enter into a guaranteed savings contract as provided by law; and (2) enter into a design-build contract as permitted by law instead of awarding a public works contract.

c. *Conservation Measure:* It provides that a "conservation measure" includes installation of insulation in a political subdivision's facility.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Geothermal Conversion Revolving Fund:* This bill establishes the Geothermal Conversion Revolving Fund for the purpose of making loans to school corporations that are either installing a geothermal heating and cooling system in a new facility or are replacing a conventional heating and cooling system with a geothermal system.

Under this bill, the Indiana Bond Bank is responsible for administering the fund, which consists of appropriations from the General Assembly, the repayment of loans made to school corporations from the fund, any gifts and grants or other money required by law to be deposited in the fund, federal grants, and income from investments made by the Bond Bank on behalf of the fund. At the end of the fiscal year, any money in the fund does not revert to the state General Fund. The bill also stipulates that any administrative expenses associated with the fund will be paid from the fund.

The bill requires the Bank to develop a written procedure for providing loans from the fund to school corporations. The procedure, at a minimum, must include an application procedure, a procedure to identify eligible projects, criteria for establishing the priority of projects for which loans will be made, and procedures for selecting projects to be funded. The Bank also is to determine the interest rate and other terms of the loan. Additionally, the Bank has to submit to the Budget Committee an annual report that describes the projects funded with loans from the fund. The fiscal impact on the Bank is expected to be minimal as the bill directs that the cost for accomplishing these tasks be borne by the fund.

Guaranteed Energy Cost Saving Contracts: The bill would allow the state to fund larger energy savings projects through the use of an energy savings contract. Currently, an energy savings contract must include a guarantee from the provider that the energy cost savings and or operational cost savings from the project will meet or exceed the cost of the project not later than 10 years from the date the installation is completed. The bill provides that projects could be about twice the size of current projects.

Explanation of State Revenues:

Explanation of Local Expenditures: *Geothermal Conversion Revolving Fund:* This bill authorizes school corporations to borrow money from the Geothermal Conversion Revolving Fund to purchase a geothermal heating and cooling system (in the case of a new school) or replace a conventional heating system with a geothermal one. The maximum amount of the loan cannot exceed the difference between the geothermal and the conventional systems.

The school corporation has to submit an application to the Bank, which has final approval. The corporation must enter into a loan agreement with the Bank before receiving a loan from the fund. The corporation would have up to 15 years to repay the loan either from its general fund or from its capital projects fund. Under this proposal, the number of school corporations that find it economically feasible to install a geothermal system could increase. The Bank is charged with selecting projects for which loans will be made.

Energy Savings Contracts:

a. Guaranteed Energy Cost Saving Contracts: The bill would allow local units to fund larger energy savings projects through the use of an energy savings contract or participate in a utility efficiency program. Currently, an energy savings contract must include a guarantee from the provider that the energy cost savings and/or operational cost savings from the project will meet or exceed the cost of the project not later than 15 years from the date the installation is completed. The energy savings projects or energy contracts relating

to the alteration of water or wastewater could be about 1 1/3 times the size of current projects, and other efficiency programs could be about twice the size of current programs.

b. Design-Build Contracts: The bill could reduce local government public work project costs if the design-build contract was cheaper than a traditional public works project. The savings would depend on the project.

c. Conservation Measure: Allowing local governments to participate in utility efficiency programs or enter into guaranteed savings contracts could also reduce the costs to them. Energy savings contracts are paid from the reduction in energy costs resulting from the project.

Background on Geothermal Conversion Revolving Fund: According to the Department of Energy, geothermal systems are capable of using up to 30% less energy than conventional systems. Even though they may be several times more costly than conventional systems to install, the additional costs could be amortized within 5 to 10 years. System life is estimated at approximately 25 years. Approximately 50,000 systems are installed in the U.S. annually. Eighteen systems have been installed in Indiana schools.

Explanation of Local Revenues:

State Agencies Affected: Indiana Bond Bank; All.

Local Agencies Affected: School corporations; All.

Information Sources: Department of Energy Website: <http://www.eere.energy.gov/>

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